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October 21, 2005

Marlene H. Dortch, Secretary
Federal Communications Commission
Washington, DC

Attention: Wireline Competition Bureau

Re:

*In the Matter of the Federal-State Joint Board on Universal Service, CC Docket No. 96-45;
Universal Service Contribution Methodology NPRM, CC Docket No. 96-45.*

Dear Ms. Dortch:

As described below, a meeting took place involving the persons named, along with the undersigned, to discuss universal service issues including contributions, basis of support and ETC certification. A copy of the presentation is attached. This notice is being filed in each of the dockets identified above.

On October 20th Bob Udell, of Consolidated Communications, and Ted Heydinger of Capitol Technology Affairs met with Cathy Carpino, Ted Burmeister, and Katie King in the Telecommunications Access Policy Division.

Sincerely,

A handwritten signature in black ink, appearing to read "C. Robert Udell, Jr.", written over the typed name.

C. Robert Udell, Jr.
President Telephone Operations - TX

Attachments

Universal Service Trends

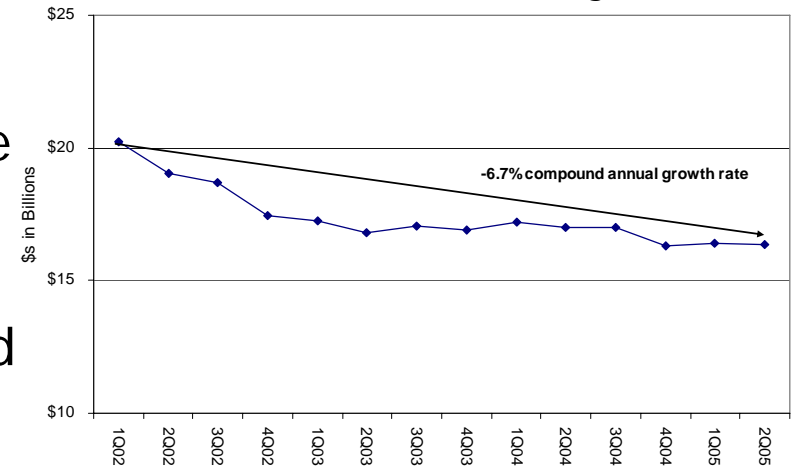
Presentation to Policymakers
October 17-18, 2005

USF Contribution Methodology

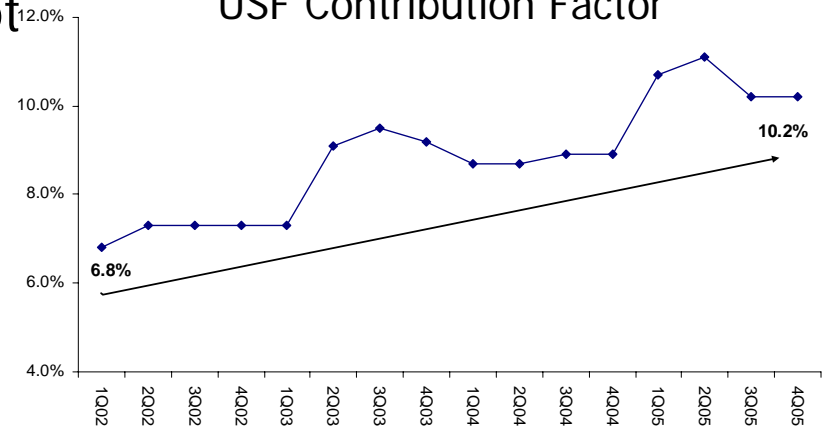
■ Problem

- Need for a funding mechanism that provides larger, more stable USF funding base, w/ equitable contribution requirements
- When DSL is eventually removed from base, assessment factor could raise from 13%, from 10.2% to 11.5%, making prompt action important
- Uncertainty around future funding sources are clouding investment decisions

USF Interstate Funding Base



USF Contribution Factor



Broaden & stabilize base, ensuring greater predictability for all participants

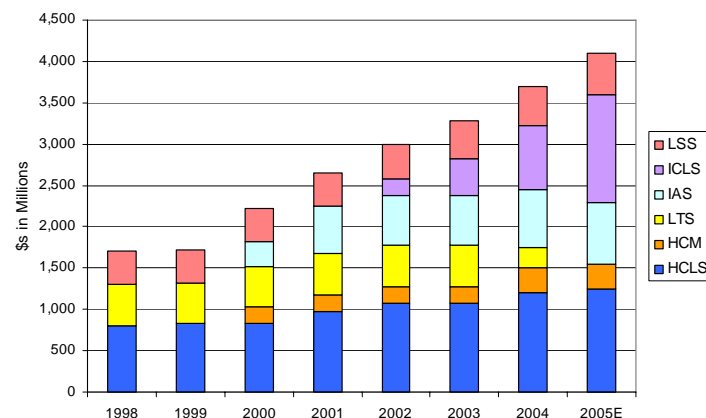
Attributes of Contribution Reform

- Broadest possible funding base to achieve relatively low assessment rate on each consumer
 - Minimize incentives for bypass or noncompliance
 - Unequal obligation among similar services using different technologies could affect consumer choice
- Sufficiency, stability, and predictability over time
 - Minimize carrier and customer confusion
 - Better environment for network investment decisions
- Relatively technology and market resilient
- Providers that benefit from use of the network should be obligated to contribute to the support of the network

HCF increasing due to access replacement and CETCs

	Funding in \$millions			% of USF		Growth in funding			Incremental ILEC funding (2)
	CETC	ILEC	Total	CETC	ILEC	CETC	ILEC	ILEC w/o (2)	
1998	.	1,696.6	1,696.6	0%	100%	-	-	-	
1999	.5	1,723.1	1,723.7	0%	100%	-	1.6%	1.6%	
2000	1.5	2,515.3	2,516.8	0%	100%	179.1%	46.0%	17.0%	\$500M from reg. chngs., including IAS
2001	20.2	2,583.2	2,603.4	1%	99%	1251.1%	2.7%	2.7%	
2002	47.5	2,934.5	2,982.	2%	98%	135.3%	13.6%	5.5%	\$210M from reg. chngs., including ICLS
2003	131.5	3,141.8	3,273.2	4%	96%	176.8%	7.1%	2.6%	\$130M from reg. chngs., including ICLS/IAS
2004	333.1	3,154.5	3,487.7	10%	90%	153.4%	0.4%	0.4%	
2005E	719.4	3,174.2	3,893.5	18%	82%	115.9%	0.6%	0.6%	

Source: USAC; projections by Balhoff & Rowe and are based on USAC's 2Q05 estimates for full year

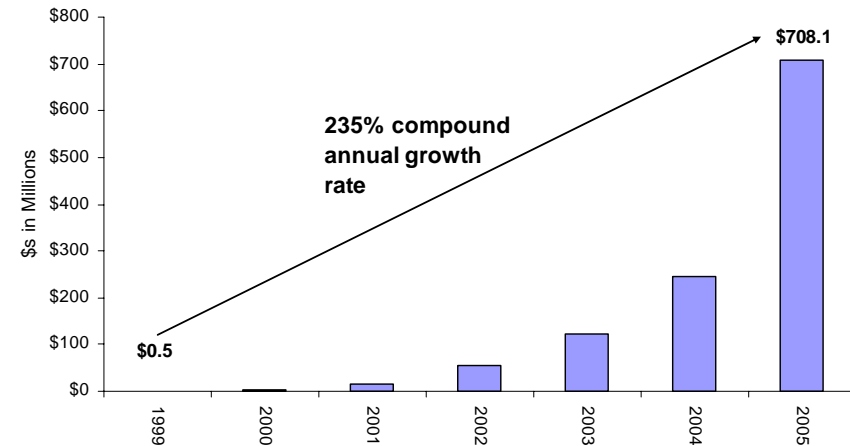


HCLS = loop; HCM = Model (large co); LTS = long term;
ICLS = interstate common line; LSS = local switching;
SNS = safety net; SVS = safety valve.
Source: USAC

- Step-function changes in ILEC funding, mainly due to access replacement, not “new money.”
- Under identical support rule, CETCs receive “new money” from access replacement.
 - 97 percent of CETC carriers were wireless. Did not receive access payments, but did receive access replacement.
 - Also benefited from reduced access levels.
- Identical support also provides CETCs “safety valve” support, intended to help rehabilitate acquired ILEC exchanges.

Key Implications of Current Approach to Designating & Funding CETCs

- *Current* fund growth associated with the rapid increase in wireless CETC funding
 - So far, the largest CMRS carriers (e.g. Verizon, Cingular) have largely refrained from seeking CETC status
- Number of Competitive (mainly mobile wireless) ETCs increasing, with presence in more study areas
 - Under “identical support rule” they also receive access-replacement support, although they didn’t receive access
- Confusion over universal service purposes – promote rural service, promote competition, or both?



Source: USAC 4Q05, filed 8-2-05

	3Q02	3Q05	CAGR
Rural CETCs	26	161	83.6%
Rural ILEC Study Areas w/ CETCS	221	747	50.1%
% of Total Rural High Cost Support	3.0%	17.8%	81.0%

Source: USAC 3Q05

Greater CETC Discipline is Required

■ Problem

- CETCs are driving fund growth
- Unfocused policy goals in CETC regime
- Absence of discipline and accountability

■ Solutions

- Clearly stated policy goals & targeted mechanisms
- Support FCC adopting JB's mandatory minimum national criteria for CETCs
 - CETC COLR requirements to receive USF
 - USF for ETCs based on their own costs
 - Address deficiencies in the guidelines, including not requiring compliance at the time the funds are received
 - Pursue appropriate tests/analyses, for national application, providing a "bright-line" for designating ETCs

Quarterly HCF Support Comparison

(in 000s)		Growth	
Non-Rural	ILEC	CETC	
ILEC-Price	\$ 159,235		-3.5%
ILEC-ROR	\$ 19,455		-3.0%
CETC		\$ 53,902	149.2%
CETC-Pending		\$ 16,132	236.5%
Total	\$ 178,690	\$ 70,033	-3.5% 165.0%
Rural			
ILEC-Price	\$ 70,814		-15.1%
ILEC-ROR	\$ 554,826		1.0%
CETC		\$ 111,929	63.0%
CETC-Pending		\$ 22,076	-40.2%
Total	\$ 625,640	\$ 134,005	-1.1% 26.9%
Non-Rural + Rural	\$ 804,330	\$ 204,039	-1.6% 54.5%

High Cost Support 4Q2004

Non-Rural	ILEC	CETC
ILEC-Price	\$ 165,038	
ILEC-ROR	\$ 20,067	
CETC		\$ 21,629
CETC-Pending		\$ 4,794
Total	\$ 185,105	\$ 26,423
Rural		
ILEC-Price	\$ 83,441	
ILEC-ROR	\$ 549,133	
CETC		\$ 68,671
CETC-Pending		\$ 36,935
Total	\$ 632,573	\$ 105,607
Non-Rural + Rural	\$ 817,678	\$ 132,030

Source: USAC 4Q05